

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 IO-13 ISO-00 AGR-05 CEA-01 CIAE-00

COME-00 DODE-00 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04

ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00 OMB-01

ERDA-05 FPC-01 PM-04 SAM-01 OES-06 ACDA-07 AGRE-00

/129 W

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P 281812Z SEP 76

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC PRIORITY 1189

INFO USDEL MTN GENEVA PRIORITY

AMCONSUL CALGARY VIA POUCH

C O N F I D E N T I A L OTTAWA 3893

EB FOR ASSISTANT SECRETARY KATZ; FEA FOR ADMINISTRATOR ZARB

GENEVA FOR AMBASSADOR WALKER

E.O. 11652: GDS

TAGS: ETRD, ENRG, CA

SUBJ: ALBERTA PREMIER LOUCHEED ON GAS SUPPLY ASSURANCES,
PETROCHEMICAL TRADE, BEEF

REF: (A) OTTAWA 3366; (B) SECSTATE 230382; (C) MTN GENEVA 7367

1. SUMMARY. LOUGHEED AGREES TO GET BACK INTO CHANNELS
WITH HIS REQUESTS FOR PETROCHEMICAL AND BEEF TARIFF
CONCESSIONS. BUT FOR POLITICAL AND SUBSTANTIVE REASONS,
HIS PROPOSAL OF GAS SUPPLY ASSURANCES AND FOLLOW-ON
CONTRACTS AFTER 1989 MERITS ANALYSIS. END SUMMARY.

2. AT LUNCH IN EDMONTON SEPTEMBER 27 LOUGHEED REPEATED HIS
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PROPOSAL FOR BILATERAL TALKS AIMED AT UNIFORMIZING AND REDUCING

PETROCHEMICAL AND BEEF TARIFFS. OTTAWA, HE SAID, ISN'T TAKING INTO ACCOUNT ALBERTA'S INTEREST IN INCREASING RAW MATERIAL PROCESSING IN THE PROVINCE, AND THEREFORE HE MUST DEAL DIRECTLY. IN ORDER TO GET INTO THE GAME, HE WILL PUT ONTO THE TABLE AN OFFER TO NEGOTIATE SUPPLY ASSURANCES AND FOLLOW-ON CONTRACTS FOR GAS TO THE U.S. AFTER PRESENT CONTRACTS EXPIRE IN 1989. NEW CONTRACTS WOULD PROVIDE FOR REDUCED VOLUME, BUT EASE TRANSITION OF U.S. USERS AS THEY SEEK ALTERNATIVE SOURCES.

3. DRAWING ON HELPFUL GUIDANCE IN REFTTEL B, I TOLD LOUGHEED:

(A) WHILE WE WISH TO EXPAND CONTRACTS IN PROVINCES TO TAKE ACCOUNT OF NEW REALITIES IN CANADA, WE CANNOT VIOLATE PRINCIPLE OF HANDLING ALL FORMAL NEGOTIATIONS THROUGH OTTAWA;

(B) CONCEPT OF UNIFORMIZING U.S. AND CANADIAN TARIFFS IS NOT RPT NOT HELPFUL. MANY CANADIAN PETRO-CHEMICAL AND BEEF TARIFFS ARE HIGHER THAN U.S. (WHICH LOUGHEED DID NOT KNOW), AND ATTEMPT AT UNIFORMIZATION COULD ONLY MAKE AGREEMENT ON BROAD FORMULA CUT MORE DIFFICULT.

(C) SINCE REAL INTEREST OF ALBERTA IS IN MARKET ACCESS, LOUGHEED SHOULD CONVINCE OTTAWA TO SEEK MINIMUM EXCEPTIONS IN PETROCHEMICALS AND BEEF. I ADDED THAT IT IS TOO EARLY TO PREDICT HOW U.S. WOULD RESPOND TO SUCH A REQUEST.

(D) U.S. IS INTERESTED IN STABLE GAS SUPPLIES UP TO AND AFTER 1989. BUT ALBERTA SUPPLIES ARE GROWING, WITH MASSIVE DRILLING FOR SHALLOW FIELDS THIS YEAR. U.S. BARGAINING POWER IS INCREASING BECAUSE ALBERTA IS LIMITING COAL DEVELOPMENT, THUS OBLIGING ONTARIO TO TURN TO US. IN 1980'S U.S. EXPORTS OF COAL TO ONTARIO MAY EXCEED ALBERTA GAS EXPORTS TO U.S. ON BTU BASIS. MOREOVER OTTAWA, NOT EDMONTON, HAS FINAL SAY ON GAS EXPORTS.

4. AFTER SOME DISCUSSION, LOUGHEED AND I AGREED:
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(A) HE WOULD SEEK TO GET CANADIAN MTN NEGOTIATORS TO PUT FORWARD REQUEST FOR MAXIMUM U.S. FORMULA CUT ON PETROCHEMICALS AND BEEF, RECOGNIZING THAT U.S. IS UNDER NO OBLIGATION TO RESPOND, OR MIGHT ASK THE SAME;

(B) IF HE WANTS TO GO FOR MORE, LOUGHEED COULD ALWAYS PROPOSE THAT OTTAWA INCLUDE PETROCHEMICALS, GAS

AND OIL IN ITS SECTOR APPROACH AND ASK FOR BILATERALS
WITH U.S. AGAIN I MADE NO COMMITMENT ON OUR RESPONSE.

(C) I WOULD ASK WASHINGTON WHETHER IT IS INTERESTED
IN GAS SUPPLY ASSURANCES AND FOLLOW-ON GAS CONTRACTS.
IF SO, THIS SUBJECT COULD BE DISCUSSED BILATERALLY,
WITH OTTAWA LEADING A DELEGATION OF APPROPRIATE
PROVINCIAL INTERESTS. IN THAT DISCUSSION, I SAW NO
REASON WHY PETROCHEMICAL TARIFFS COULD NOT BE INCLUDED,
PROVIDED IT WERE RECOGNIZED THAT THE ACTION POINT IS
GENEVA AND THE MTN'S.

5. COMMENT: ALTHOUGH IT IS IMPORTANT BOTH FOR OUR
RELATIONS WITH CANADA AND FOR THE INTEGRITY OF THE
MTN'S TO GET LOUGHEED BACK INTO CHANNELS, WE SHOULD NOT
SQUELCH HIM.

6. AT A MINIMUM WE SHOULD AVOID A REBUFF WHICH COULD
CONVINCE THIS POWERFUL PLAYER THAT THERE IS NO PERCENTAGE
IN WORKING WITH US ON GAS SUPPLY. THIS CONCLUSION HOLDS
TRUE EVEN THOUGH LOUGHEED DOESN'T HAVE THE FINAL SAY
ON GAS EXPORTS. A LOUGHEED CONVINCED THAT HE HAS NO
ALTERNATIVE BUT TO DIRECT GAS TO TORONTO CAN FO US A
LOT OF DAMAGE.

7. AT A MAXIMUM, LOUGHEED'S OFFER OF TALKS ON GAS ASSURANCES
CAN EASE AN (OTHERWISE DIFFICULT) ENERGY TRANSITION IN
THE 1980'S AND 1990'S.

8. DIFFICULT QUESTION FOR US IS COAL. IF WE PURSUE
SUPPLY ASSURANCE ISSUE, CANADIANS WILL WANT TO KNOW HOW
WE WOULD REACT TO REQUEST FOR COAL SUPPLY ASSURANCES.

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9. WHAT IS NEEDED AT THIS STAGE IS WASHINGTON EXAMINATION
OF IMPACT ON U.S. INTERESTS OF US-CANADIAN BILATERAL ENERGY
AGREEMENT WHICH WOULD:

(A) SPECIFY THAT GAS AND COAL SHORTFALLS WOULD
BE SHARED EQUITABLY BETWEEN CUSTOMERS IN THE TWO COUNTRIES,
AND DEFINE EQUITY AND MECHANISM FOR REALIZING IT;

(B) PROVIDE FOR FOLLOW-ON GAS AND COAL CONTRACTS IN THE
1980'S.

10. EMBASSY WILL PROVIDE SEPTTEL INITIAL ELEMENTS FOR
SUCH AN EXAMINATION.
ENDERS

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